

ADDRESS

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By the President

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When the high tide of prices and of financial inflation began to ebb, the keenest observer seeking to estimate the extent of the decline must have failed to do so. Ever since the vast network of modern trade, based so largely on steam, electricity and credit, made the world almost an industrial whole, no such test of its power to resist disaster has occurred.

The losses ascertained on the readjustment of balance sheets have been so great that many concerns of world-wide importance will require some years to regain what had been the most favourable position in their experience, and the dividends on many first-class stocks have been lessened or actually stopped for the moment. Whether we have seen the worst or not it is idle to guess, but thus far these extraordinary adjustments have been made with so few failures, and with so little of anything approaching panic, that we have cause for some surprise and much thankfulness. The General Manager has already told you of our own good fortune in steering through a difficult time. As we turn a new corner in the world's affairs our duty is to look ahead and consider what is good as well as what is bad in the prospect.

We have seen the fall of Bolshevism and the return of efficiency in labour in many countries. We speak of certain parts of Europe as bankrupt, and the governments may really be so, but the peasant working on the fruitful earth, and the worker in industrial plants which make articles for home consumption, are thriving, and much wholesome happiness exists. We have perhaps made peace with Southern Ireland; we have laid the basis of an agreement which will bind the four great powers regarding Pacific questions, and another agreement which should protect China. We hope that an agreement for partial disarmament will be completed, and that the Senate of the United States will approve the entire conclusions of the Conference now sitting at Washington.

This accomplished, a new spirit will animate the world, but there will still remain much the greatest problem arising from the war. If it was a case of putting the cart before the horse to discuss disarmament without settling the Far East question, it is almost as much so to discuss disarmament before the financial problems of Europe are at least directed into the way of future settlement. We can but hope that an international conference will grapple with this subject at once.

Turning to our own foreign trade and having in mind the large figures caused by the war, which in 1918 reached a total of two and a half billions of dollars, we find at the close of our fiscal year in March last little change in volume, but much change in detail, and a vast change in the half year ending September. For the fiscal year our total foreign trade was \$2,450,587,000, but while in 1918 we had a surplus of \$623,647,000 in exports over imports, in 1921 we actually imported to the value of \$29,730,000 more than we exported.

For the six months ending September our foreign trade was only \$721,626,000, as compared with \$1,274,878,000 in 1920. The great inrush of imports which in the last half of the year ending March had so completely changed our

fiscal position, lessened rapidly during the half year, but nevertheless there was a balance of \$35,835,000 against us. When we compare the figures for these six months in 1920 and 1921, we find an almost unbroken series of decreases in the various items of both imports and exports, the imports showing a decrease of nearly fifty per cent., and the exports one of about forty per cent.

When we make a comparison for the twelve months ending September we get a clearer light as to the great change which has taken place. For the twelve months ending September, 1920, our foreign trade was over two and a half billions, while at the end of September, 1921, it had fallen to \$1,897,335,000. We had, however, turned a balance of 80 millions of excess imports into a balance in our favour of 85 millions. Although the situation has changed so materially, it is still worth while to analyse the figures for the fiscal year. We learn that during this period of reckless buying we imported under eight main headings 209 millions in value more than in the preceding year, and under one heading, 33 millions less. In the details there are many decreases, but these are over-balanced by such increases as: Distilled beverages, 25 millions; sugar, 12 millions; cotton and other textiles, 12 millions; wood and wood products and paper, 14 millions; iron and its products, 59 millions; coal, 55 millions; petroleum and its products, 19 millions; and chemicals, 6 millions. The most important decrease is in animals and their products, 33 millions. Nor can we find any warrant from our exports for such excessive imports. It is true we maintained the total at only 75 millions less than for the previous year, but the details show the following decreases in value: Flour, 32 millions; sugar, 15 millions; cattle, 23 millions; furs, hides, etc., 35 millions; beef, 10 millions; bacon, etc., 38 millions; and ships, 33 millions. Our excessive imports were only possible because we exported more grains to the extent of 123 millions, and more wood, wood products, etc., to the extent of 70 millions. Of the great total of

imports, valued at a billion and a quarter of dollars, we should make a very large proportion ourselves, and if we are to prosper and pay our debts abroad we must plan to do so in future. Any other course will be ruinous to Canada. Our total trade with Great Britain was \$528,171,000, with purchases of \$213,944,000, much the largest on record, but with sales of only \$314,226,000, the smallest since 1915, leaving a surplus in our favour of only \$100,281,000. Our total trade with the United States was \$1,417,296,000. The imports were \$856,613,000, the largest on record; the exports \$560,683,000, also the largest, and the balance against us, \$295,930,000, a trifle less than for the previous year. We are certainly improving the proportions of our trade with the United States; but we have a long way to go before an ideal condition is reached, and such measures as the Fordney tariff bill show conclusively that we must not expect any help from our neighbours towards making the two sides of our trading account more nearly equal in money value.

The field crops of Canada for 1921 are estimated in value by the Dominion Bureau of Statistics at \$1,017,-675,000, as compared with revised figures for 1920 of \$1,455,244,000. The revised figures for 1920 are much below the estimate made a year ago, but whatever the actual figures for 1921 may turn out to be, the very great loss in money value, and therefore in purchasing or debt-paying power, is only too clear. The loss in the value of wheat is estimated at 144 million dollars, oats 92 millions, barley 22 millions, and other grains, apart from rye, about 43 millions. There is a gain in rye of 7 millions. In hay, clover, etc., there is a loss of about 70 millions, in potatoes of about 45 millions, and in other root and fodder crops of about 28 millions.

While the yield of most agricultural products was less than in 1920, the loss is mainly in the price. Wheat is said to have averaged only 11 cents over the pre-war average, while oats and barley were sold at less than

pre-war prices. With wheat at an average for all Canada of 86 cents, as compared with \$1.62, oats 37 cents instead of 53, barley 47 instead of 83, and almost every other farm product in somewhat similar proportion, the present position of the farmer is obvious. In hay the poor result was due to the lowest yield per acre on record and not to the price.

These hard facts have brought about a situation rare in Canada for many years, but they do not constitute the whole of the farmer's troubles arising from the world-wide adjustment of prices. The money loss from the fall in the price of cattle, whether the farmer has sold his animals or still owns them, has been more serious and disturbing than in the case of cereals. Unfortunately we have no statistics upon which to make such a comparison as in the case of our field crops. Europe fixes the price for our grain and cattle, but the United States has been a buyer under certain conditions, and the possibility of selling there a surplus of cattle not immediately required by Europe, has been a protection against a loss in price which will affect all of our cattle if this additional market does not exist. The Fordney bill closes that additional market to us for cattle. For the year ending in March last the exports from Canada to the United States included commodities affected by the bill to the value of 168 millions of dollars, and to the extent of about 32 millions, these consisted of cattle and their products. While almost every country in the world is at the present time increasing its tariff in the effort to save its own industries, a creditor nation desiring to sell the products of its industries abroad and be paid for them, must have regard to the fact that payment can only be made in commodities. If the Fordney tariff remains in force, our power to buy from the United States will be curtailed accordingly, and we must in self-protection put every possible obstacle in the way of our people buying from that country the commodities for which we are thus rendered unable to pay.

A year ago we had some hope that the embargo against our live cattle landing in Great Britain might be removed. The report of the Commission appointed in that connection makes it clear that there never was any basis for excluding our cattle because of the existence of disease, and that our cattle are healthier than Irish or even British cattle. It is granted that the admission of our cattle would tend to restore the number of live stock to pre-war figures, and that it would help to satisfy the increasing demand for fresh home-fed meat. It also seems plain that the consumer in Great Britain desired the embargo lifted, but by a vote of 47 to 11 in Parliament, it was decided to maintain it.

The revised figures of our mineral production for 1920 are much in excess of the estimate of 200 millions, reaching, indeed, a total of \$227,860,000, the largest figures on record. Having regard to the price of metals, a falling off in 1921 was inevitable, and the present estimate for that year is 170 millions, a very fair showing under the circumstances. There was a handsome increase in the production of gold, and silver held almost the same position as to quantity as in the previous year, although the price was much lower; while copper, nickel, asbestos, zinc, coal and all other non-metallic minerals show a reduction in quantity, or in value, or both.

The public debt of the Dominion at 31st March, 1921, was \$2,340,878,000, as compared with \$2,298,784,000 at 30th November, 1920. Against this, non-active assets, chiefly railway loans, amounting to \$393,937,000 are held. Great Britain at 30th November last, still owed us \$136,647,000, which is deducted from the figures given above, while foreign Governments still owed \$46,050,000. War expenditures fell to \$16,997,000 for the fiscal year ending in March, 1921, and for the ensuing six months refunds of considerable amount have more than offset expenditures, producing a credit balance of \$2,889,000.

We are beginning to understand what pensions to our

soldiers and to their dependents will mean. For the fiscal year ending in March last we paid for all kinds of pensions \$37,000,000, as compared with \$24,000,000 in the previous fiscal year. The figures are swollen by the settlements being made with disability pensioners, who are allowed to accept final payments instead of monthly pensions. During the year as many as 18,261 disability pensioners accepted final payment, causing an expenditure of \$7,307,000. At a later date, the end of October last, there were in force 48,507 disability pensions. The pensioners, with their wives, children, mothers, fathers, brothers and sisters, numbered 89,689 souls, involving an annual liability of \$17,585,000; and there were in force 19,480 dependent pensions, representing allowances to relatives of deceased soldiers numbering 36,250 persons, and involving an annual liability of \$13,062,000. The total annual liability in October last was a little over 30 millions of dollars.

There is one feature arising out of the war, of great interest to the business community, about which very little is known. We are generally aware that under the Treaty of Peace, in the section devoted to Debts, each nation is authorized to establish a Clearing House for the settlement of debts due by or to the late enemy, and for the liquidation or other settlement of all rights of property situated in one country and owned in the other.

Our own Clearing House is under the Secretary of State, and an enormous amount of work has been done and is still being done in an effort to disentangle the evidence required to substantiate the various claims, to obtain admission thereof by the enemy, and to bring each matter to the point of settlement. Very large claims for debts due have already been paid by Germany, but much the largest questions and those involving the most money have yet to be settled. The claims abound with technical difficulties and with disputes as to facts, and those who are not brought into close contact with the subject can have

little idea of the credit that is due to the Under Secretary of State and his staff.

Under section 296 of the treaty, which deals with debts, 742 claims, amounting to \$8,720,000, have been made by Canadians against Germans. Of these, only 194 have been disposed of and only \$336,000 admitted. Claims amounting to \$4,818,000 have been objected to, and either withdrawn or resubmitted under the section hereafter mentioned, while claims for \$3,566,000 are still under consideration and are mostly contested. The German claims against us for such pre-war debts are 7,409 in number and amount to \$6,734,000. Of these, 6,092 claims have been disposed of, or are merely awaiting further information. We admit claims amounting to \$1,529,000, refer other claims to the section hereafter mentioned, and have under consideration claims for \$1,596,000, mostly contested.

The next section of the treaty is devoted to Property Rights and Interests. Under this section, the Canadian Custodian may liquidate all property rights and interests within Canada belonging to Germans at the date of the ratification of the treaty, offsetting the proceeds against our own claims or those of Great Britain, and Germany must settle for them with her own nationals. We are proceeding with this liquidation; there are about 300 claims, and we have thus far credited Germany with \$362,000 on this account. Germany is required within six months from the same date to forward to Canada all securities and documents of title relating to German-owned property in Canada, but default has been made in this. The Under Secretary of State visited Germany and secured certificates for shares in Canadian companies, bonds and other securities for a considerable sum, which is, however, only a small proportion of the total which Germany is obligated to turn over. Our claims against Germany under this section are 19 in number, amounting to \$5,072,000. Of this, \$1,506,000 has been paid in money,

and some valuable real property has been restored, while claims for \$3,566,000 are still under consideration by the German Clearing House. The debts are payable at the pre-war rate of exchange, and bear interest at 5 per cent. per annum from the original due date to that of payment.

The sales of Canadian securities for 1921 show a marked increase over 1920. The figures are as follows:

Issue	Amount	In Canada	In United States	In Great Britain
Government....	\$133,488,500	\$77,082,500	\$56,406,000
Municipal.....	88,805,973	73,356,414	15,449,559
Railway.....	101,150,000	87,000,000	\$14,150,000
Public Service...	15,450,000	6,200,000	9,250,000
Miscellaneous...	61,290,345	44,909,025	13,950,000	2,431,320
Total.....	\$400,184,818	\$201,547,939	\$182,055,559	\$16,581,320

The total is about 80 millions larger than in the previous year, and it is comforting to know that the purchases of such securities at home were nearly 100 millions greater than in 1920, while the sales in the United States were over 30 millions less. Deflation is naturally helping the sale of our securities.

During the year our Monthly Commercial Letter has endeavoured to give to our customers, correspondents and the press, information as to finance, home and foreign trade, the process of deflation, the details of production, and the markets and prices of many national products, together with facts regarding national expenditures, immigration, etc. These are, as far as possible, accompanied by graphs calculated to help in a rapid understanding of the subject, and we have now added an index of wholesale prices which will be continued in graphic form from month to month. When I have also referred to our Review of Business Conditions, which this year is more exhaustive than ever, I feel that I need not add much about the trade and financial position of Canada and of the world generally. Our period of readjustment has punished us much more than we expected. In the case of many commodities we may safely hope that we have seen the bottom of the

decline and have begun the upward climb to better conditions. In the case of others we cannot yet be sure, and doubtless between the final adjustment of one branch of manufacturing and that of another there may be an interval of time not easy to explain. The accidents surrounding production are many, but in the end all commodities and all labour will respond to laws more powerful than embargoes, valorizations, combines or labour unions. In the meantime, incidents which seem unfavourable should not unduly depress us, provided they are a natural outcome of the deflation through which we are to clarify the outlook of the business world before starting on our next period of prosperity.

Although at the moment, because of present conditions in our cities, we do not desire to add to the number of unemployed by encouraging immigration, the fact remains that when normal conditions return we shall desire immigrants of the right class as keenly as ever. Emigration from Great Britain in 1920 reached 285,000, as against 390,000 in 1913, and when the conditions for such travellers improve, the number will doubtless greatly exceed pre-war figures. We cannot doubt that the exodus from other parts of Europe will also be very great. These figures are to some extent deceptive, as mere travellers who are returning home and others who are not settling abroad are apparently included. Our total immigration for the year ending in March, 1921, is estimated at 148,000, an improvement over 1920, but very small figures indeed, looking to our future. Of these, about 75,000 came from Great Britain and 48,000 from the United States. As far as the records show, Ontario was the destination of 62,000 of these immigrants, and the three prairie provinces of 44,000, with smaller numbers for the rest of Canada. The number of these settling or working in any capacity on the land is relatively small, and as far as our prosperity is concerned, does not need to be so large as many suppose, but that such settlement should continue on an adequate

scale is perhaps more important than at any time since the early days of the Canadian Pacific Railway. Then we had a railway mileage very much more in advance of our immediate needs, and depending very much more upon confidence in our future, than is the case to-day. We overcame that trying time with greater ease than we dared to hope, and we shall be equally successful in overcoming present difficulties, if we face them intelligently and fearlessly and do not yield to the same suggestions of blue-ruin that hindered the efforts of those who struggled through to success a generation ago. At that time we offered 160 acres of land to all comers, almost anywhere they might choose to select it. We placed upon the land many who were to the last degree unsuitable, yet the percentage of successes was remarkable; we had to build branch lines where settlement was too small to warrant our doing so, but where we believed that time would justify it; we did not sufficiently control the selling price of the land granted to railways or to others, many of whom had eventually to sell to settlers, and thus we could not settle any particular district to a reasonable extent before opening other areas. We have been brought face to face with the results of this policy. We cannot continue to build branch lines in anticipation of settlers, when older lines are flanked by unsold lands held by railways or land dealers. In the older parts, these lands must be settled and the railway lines brought to a paying basis before new lines are built. The system of homesteading should be revised and probably done away with, as being largely a mistaken policy. There are several areas in the three prairie provinces that ought not to have been settled by inexperienced farmers, and others which should not have been settled at all. What has happened is the natural result of giving something for nothing, and of allowing vast areas not adequately examined as to quality to pass into the hands of private companies whose object in selling is gain and not the public welfare. We need not fear but

that, when normal conditions return, we shall have immigration to as great a degree as we desire, but immigration and land settlement are very different matters, and indeed, a policy of land settlement is as much needed for our own farmers' sons as for any class of immigrants. We spoke a year ago about the excellent work being done by the Soldier Settlement Board, and what now seems necessary is the establishment of a somewhat similar system for all who have sufficient training to work a farm, and good records as to character, but little or no capital. We should, of course, be obliged to regain possession of land now in private hands, and to manage a lending business under great difficulties and with only a narrow margin against loss, but it has been done by such excellent bodies as the Natural Resources Department of the Canadian Pacific Railway, the Hudson's Bay Company and others; and the fine record of the Soldier Settlement Board shows that it can be done by a Government Commission composed of men devoted to the work and free from political influence. The Salvation Army, if sufficiently backed by the Government, also stands ready to do good settlement work, especially where it involves the duty of shepherding the settler during the early years.

We have referred earlier to the financial condition of Europe. So much more is involved in this than German reparations and the Allied debts, that it may be well to clear our minds, if only partially.

In war, nations secure money as best they may. Canada was fortunate enough to sell her bonds to real investors, and if her people would limit their purchases abroad we could immediately return to the gold basis. In the case of Europe sufficient investors could not be found, and vast debts exist in the shape of treasury bills, issued for short terms and constantly having to be renewed. Great Britain has at the moment about £1,100,000,000 of these afloat, and if they could be, in whole or in large part, funded into long-term bonds, to be bought by real investors, she could doubt-

less soon restore the gold basis of her currency. These treasury bills, however, in March last, formed over one-sixth of her whole debt. Many nations cannot find buyers to a sufficient extent even for short-term treasury bills, and are forced to create money by fiat or other paper issues, made either by the Government or by banks controlled by it. From day to day as they mature, France has to find buyers, to the extent of about 70 billion francs in all, for short-term obligations called "Bons de la Défense," issued to pay for reparations; and as, even apart from this, she cannot balance her budget, she is also adding to her ordinary debt at an alarming rate. She is forced to spend enormous sums for reparations, the cost of which she expects Germany to pay, but as to this she can have no sound assurance. Apart from this one form of debt she owes over 325 billion francs, her debt having almost doubled since the close of the war. It is clear that the rest of the world owes it to France to see that these reparations are made, even if Germany pays nothing more, but the budget of France must be made to balance very soon in other respects if she is to emerge with credit from her terrible difficulties. Germany is simply living on the printing press. According to a recent statement she resorts to it to the extent of about $7\frac{1}{2}$ billion marks a month, and her total floating debt is said to be about 235 billion marks. The smaller nations of Europe who were engaged in the war are mostly in a worse condition than that of France.

The need which takes precedence of all others is that budgets must be made to balance. Only Great Britain and Denmark have as yet accomplished this. Nations can always effect this, however, when they realize that the only other course means an absolute stoppage of the power to spend as soon as fiat money ceases to have any purchasing value. The next is to rearrange each national debt so that payments over a series of years, which will eventually extinguish the debt, may be possible, and that

the paper currency and other floating obligations may also be reduced, not at too fast a rate, but one which looks forward to a resumption of the gold basis at some future time. When it comes to arranging the amortization, regard must be had mainly to the ability of each nation to pay. A nation is but an aggregation of individuals and what it can pay, especially to foreign creditors, is what it can save while living in reasonable comfort. In our opinion it is most desirable that any settlement shall consist of a series of annual payments, so that from the beginning only the annual sum shall hang over the paying nation as its problem. The constant facing of a vast capital sum of debt has a most depressing effect on the debtor.

Some nations feel the burden of debt and will break their backs sooner than not pay, but many nations are not like this and their temperament must be taken into account. We need not worry about their debts to their own people, except in so far as they cause fluctuations in the gold value of their currency when dealing with the outside world, but their debts to the United States and Great Britain and the German reparation payments, which are closely connected problems, hang like a wet blanket over a world otherwise ready for new and hopeful action. It is not for us to offer advice to the United States, yet we cannot fail to express surprise at the suggestion that the powers owing money to the United States should pay what they owe in 25 years with 5 per cent. interest. We do not believe that the Allied war debts should be cancelled entirely, although they are not ordinary debts but represent the cost of commodities, at two or more times the ordinary price, and of other help afforded by one nation to another, in winning a war in which all were vitally interested. Even if we could ascertain the precise value in money of each nation's effort, and attempted to adjust the cost according to each nation's proper share in this combined effort, we should nevertheless be

forced to come back to each nation's real power to pay an external debt and yet secure for its people reasonable prosperity. The literal meaning of the American proposal referred to is that the combined nations owing money to the United States would first have to ship, to that and other countries, sufficient merchandise to pay for the food-stuffs and other goods they have to buy in America, which, before the war, reached \$1,500,000,000 in value, and in addition would have to ship annually more merchandise to the value of about \$700,000,000, to pay the debt with 5 per cent. interest in 25 years. If Europe could produce such a vast quantity of goods, however, the result would be ruinous to the industries of the United States.

As early as 1737, British Government 3 per cents were above par, and during the long time since, the rate has rarely been above $3\frac{1}{2}$ per cent., except in the period following the Napoleonic wars. The low price of Consols before the present war was, of course, caused by the reduction below 3 per cent. Such a rate as 5 per cent. for a debt created under such peculiar circumstances, the payment of which must be spread over such a long period of time, is more like the suggestion of avarice than of wisdom. Past experience would suggest a rate of not more than 3 per cent. If this were the rate, the payment of 5 per cent. annually for 31 years would extinguish the debt, principal and interest, or the payment of 4 per cent. annually would end the debt in 47 years.

I spoke at some length last year on the subject of taxation, particularly as to the method of distributing the burden so that it may be borne without ruining those who have done so much to build up our country, and to whom we must look for the creation of new enterprises and for the extension of those now in existence. May I repeat that we can readily bear the cost of the war in this young country if we are fair to one another? We not only cannot bear it, but we are heading for

national ruin, if each man seeks to evade his share and by the mere power of his vote, without considering the use they make of their incomes, to load it upon the shoulders of the few who are called rich. Newspaper editors who favour the use of votes for such a purpose write freely about the share of this debt borne by each head of a family, for the purpose of such calculations dividing the national debt evenly among every man, woman and child and calculating the family at four individuals. Nothing could be further from the truth than this, nor, on the other hand, would any such system of taxation be possible. The fault of our system is that it is the most extreme and unfair system in the opposite direction that could be devised. Far from laying the debt upon the shoulders of all, it endeavours to take as much as possible from all incomes exceeding \$1,000 for unmarried persons and \$2,000 for married people, leaving all under these amounts free from any direct tax; while those whose income exceeds certain figures are penalized as if they were sinners, until the point is reached where almost the whole is taken. The highest tax in Canada on income, ordinary and surtax together, reaches 70 per cent. Now it is among the owners of these incomes that the overwhelming majority of the supporters of charities and churches and of all those who make gifts for educational, scientific, artistic and other meritorious purposes, are found. It is from the same people that the capital for new enterprises or for the enlargement of existing enterprises is obtained. It is within our knowledge that many lists of annual benefactions have already been cancelled, and this process is only in its beginning. When the astonishing cruelty of requiring the payment of two years' income taxes in one year had to be faced, many men who had not been in debt in recent years found it necessary to sell securities at ruinously low prices, or to incur large debts which have yet to be paid. There are also the enormous sums borrowed by corporations to pay another kind of taxation. Where the money has passed to the

Government the taxes seem to have been paid, but so far as the individual or the company is concerned they are not yet paid, and weigh heavily upon the spirit of enterprise in the country. The high surtaxes on incomes are just as unfair and are precisely in the same class as the excess profits tax, now done away with except for the trail of financial trouble left behind and the sense of unfair treatment in the minds of those who were forced to pay it. By requiring business concerns to put a higher value on their commodities for taxation purposes than they would have done in calculating the surplus in their business, the Government has collected vast sums on "profits" that never existed. Why the Government does not re-examine the accounts and adjust such taxes, returning what was thus unfairly collected, it is not easy for men with a business training to understand.

We have had another year in which to consider the truth of our remarks at the last meeting on this feature of our taxation. In the case of very many concerns in Canada and the United States, if the so-called excess profits, taken from business by an arbitrary valuation of commodities not yet sold, were entirely returned, the total amount, together with the reserves which such concerns have been able to accumulate after paying normal dividends, would not cover the losses resulting from an adjustment of the prices of commodities to the level of present markets.

It is perfectly clear that as sources of national income the excess profits tax and high surtaxes on income, apart from mere unfairness, are in many ways open to the same objections. They are both unreliable, because of the violent fluctuations in the amount of revenue they produce. Many Canadians have this year paid two years' income tax on stocks which during the year have produced no income whatever. Both these forms of taxation are destructive to new enterprises, causing the investment of any surplus income in non-taxable securities and in other safe bonds, instead of in enterprises involving some risk. Because of

grave doubts about the future of any country which imposes taxes too unfavourable to capital, they also cause a general unwillingness to invest in anything which the hand of the Government can reach by such taxes. An effort was made in the United States to reduce the maximum surtax on incomes to 32 per cent., and this was proposed after a profound study of the question of taxation by those who were appointed for the purpose. Congress substituted 50 per cent. for the 32 per cent., and the very able Secretary of the Treasury in his annual report, restrained as he was by his position, felt impelled to warn the people as to the result: He says, "the evil effects of high surtaxes" fall "ultimately almost entirely upon the mass of the people, who are thereby deprived of the benefits which would result from the free flow of commercial transactions and the use of the additional capital which would be available for productive enterprise." One of the defences for our high surtaxes on incomes is that such taxes are higher in Great Britain. Surely what is happening there is a most powerful argument against the extreme phases of the system. The capital of countless British families, which before the war was largely used to buy such securities as Canada needs to sell, is rapidly disappearing because of a tax which in the extreme phases amounts to confiscation. The tax too often cannot be paid out of income, and the money must be found by dismantling houses and estates or by selling securities.

We have steadily urged that a tax of one per cent. on sales of commodities should be adopted. We already have the system, but in a partial and illogical form. Nevertheless it produces a very large part of our revenue. Carried to its logical conclusion, it would produce a very much larger sum and would make the readjustment of those forms of taxation which are deterring production and inviting national disaster, quite easy of accomplishment. It might be well to divide the national budget, under two headings, one for the service of the country's ordinary

expenditures and the other for the war debt. If the turnover or commodities tax of one per cent. were levied entirely for the war service, I am sure that the man does not exist who is loyal and would complain at paying his share of the cost of the war in this indirect and comparatively easy way.

I have in recent years referred frequently to the necessity for scientific research in very many directions, if we are to develop Canada materially, quite apart from that desire for all knowledge which should actuate any people who intend to take a share in the world's affairs. We hoped that a great effort in research was to be made under the auspices of the federal government, but this seems to have been delayed as yet. In a recent number of the Bulletin of the National Research Council published at Washington, a list of all efforts and all funds available for the encouragement of research is given. The index covers the names of 600 or 700 institutions and of funds established in the United States for research in countless directions in connection with industry or pure science. The money left by citizens of high intelligence to sustain these researches runs into millions, but the majority of the gifts are quite within the reach of the business man who has had average success. They are made not so much because our neighbours are wealthy, but because with their much wider experience they have learned the value of sound knowledge in dealing with the difficulties of industrial and other business problems. The presidents of our universities tell us frequently of the progress being made, and of the many things they are prevented from doing for want of private gifts to endow new forms of research. We have just witnessed the closing of the meeting of the American Association for the Advancement of Science held here, and we must hope that our minds have been stirred to thoughts about the future of Canada which should lead us onwards in the search for means of national development.

Despite the world-wide experience of the pains of

contraction by whole nations, and notwithstanding the many unsettled problems still standing in the way of prosperity, we have during the year passed through many remedial stages which were absolutely necessary, whether agreeable or not. We are adjusting ourselves to the creation of our products at a cheaper cost, to a renewed conception of the value of a dollar and to the necessity for the maximum of efficiency in every effort of industry. If we have due regard to the world's experiences since the war and accept the lessons to be drawn therefrom, and if as Canadians we purpose to be fair to each other and to work together for the national good as well as for our own, we shall soon again achieve the success in material things which has happily distinguished our past. The tide which has been ebbing will soon turn, and the many nations with troubles infinitely greater than our own will one by one rediscover the road to progress, the basis of which will be the power to buy food and other supplies from nations like ourselves. With that change in the tide, a great emigration from Great Britain and the Continent of Europe will take place, and some at least will find their future as settlers on our farms. With our unused acres and our natural resources, our many centres of manufacturing, our established character for industry and energy, and our really great ability to economize, when aroused, we of all nations can surely view the future with courage and confidence.

